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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER APRIL 26, 2007  
ISSUE

11. (U) Summary. This is Volume 7, issue 17 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- Johannesburg Long-term Rating Upgraded
- Ownership Component of BEE Unimportant
- New Country of Origin Regulations
- Rural Women Ensnared in Poverty Trap
- South African Giant Retailers Go Green
- March Inflation Up, But at Expected Levels
- Work Permits for Professionals Underutilized
- SA Celebrates World IPR Day

End Summary.

Johannesburg Long-term Rating Upgraded  
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12. (U) International rating agency Fitch has upgraded the City of Johannesburg's long-term rating from A to A+, based on improved tax collection and a growing economy. The rating increase means that the city's debt is seen as less risky, and this will enable it to borrow for its capital projects at a lower rate of interest. Fitch said the upgrade reflected the city's improved operating performance, including improved tax collection, aided by the clean up and updating of its asset register. This resulted in more assets on the city's balance sheet. Fitch warned, however, that Johannesburg would need to consolidate its debt collection efforts to ensure that it did not allow bad debt to accumulate as it had in the past. The agency said that Johannesburg contributed 16% of SA's GDP and employed 15% of the country's workers. (Business Day, April 25)

Ownership Component of BEE Unimportant  
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13. (U) Broad-based black economic empowerment is firmly on the agenda of medium to large privately held businesses, according to a survey released by Grant Thornton LLP. The survey of 7,200 firms conducted at the end of 2006 found that 67% ranked skills development as the most important component of their BEE strategy, followed by employment equity at 59%. Only 38% reported that black ownership is of great importance. In fact, 16% of business owners reported that black ownership was not at all important for them to achieve their BEE targets. According to Tony Balshaw, managing partner of Grant Thornton in Eastern Cape, "Businesses are beginning to understand that a broad-based approach to empowerment entails all

seven elements of the codes [of good practice]." (Business Day, April 25)

#### New Country of Origin Regulations

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14. (U) Department of Trade and Industry (DTI) Minister Mandisi Mpahlwa has signed the final regulations relating to "country of origin" labeling on clothing and textiles imported to SA. The Merchandise Marks Act, which came into effect on April 14, is designed to prevent the importation of products with misleading labels, especially those that state that the goods originate from SA when in fact they are imported. The Act also enables the DTI to exclude the use of certain marks. Specifically, the Act prohibits the importation or sale in SA of merchandise or goods listed in the schedule, such as textiles, articles of textiles, clothing, shoes, and leather goods, unless the goods are clearly affixed with a country of origin label. Retailers will now be required to attach labels indicating the country of origin and, if manufactured locally, whether imported material was used. The DTI, South African Revenue Service (SARS), and the South African Bureau of Standards are tasked with ensuring enforcement of the regulations. SARS will randomly detain consignments to conduct inspections, and non-compliant goods will be seized. DTI also has requested that the large retail group Edcon provide workshops to inform the public of the new regulations. (Business Day, April 20)

#### Rural Women Ensnared in Poverty Trap

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15. (U) Deputy President Phumzile Mlambo-Ngcuka called for public and private sector intervention to ease the plight of rural women during the 4th World Congress on Rural Women held in Durban. Statistics

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released at the forum indicated that a quarter of the South African population depends entirely on state grants. According to Mlambo-Ngcuka, women are affected by unrewarding seasonal wage work, subject to demands of the household, and suffer from double exploitation and patriarchy. Women are working hard for too little.

She said rural women remained in a poverty trap and factors perpetuating that poverty needed to be eradicated through a holistic response from private and public stakeholders. Poverty factors included a lack of access to affordable basic infrastructure, poor health, not owning assets, poor or no skills, exposure to labor market risks, and no social security. HIV and the Aids pandemic were also targeted as a factor that was forcing young girls to look after families. She named initiatives such as micro-credit, co-operatives, adult education, and youth development as necessary to assist the poor rural women. (Business Day, April 24 and The Sowetan, April 24)

#### South African Giant Retailers Go Green

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16. (U) Two of SA's giant retail chains, Pick n' Pay Stores and Woolworths, have announced that they will commit to energy reductions and combating climate change. Pick n' Pay Stores intends to become the first local retailer to disclose its carbon dioxide emissions, while Woolworths aims to reduce its "relative carbon footprints" by 30% in the next five years. It plans to replace all its refrigerators with more environmentally friendly ones in an effort to reduce greenhouse gas emissions. Pick n' Pay said that in addition to its energy reduction program, it would also stock only fish that are harvested in a sustainable way, such as hake, snoek and tuna. Woolworths' CEO Simon Susman said his company would cut electricity consumption and transportation emissions by 30% and 20%, respectively. Woolworths also plans to reduce food packaging, an area which it has been previously criticized for overdoing, by 30%. Susman said the company would reduce current packaging as well as recycle and reuse the current packaging material. In the longer term, the company is evaluating the feasibility of investments in solar power, wind energy and heat recycling at its massive central delivery facility. Beyond this retail sector, however, South African corporate commitments to environmental measures are few. (Business Report, April 23 and Financial Mail Magazine, April 13)

## March Inflation Up, But at Expected Levels

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¶17. (U) March's CPIX inflation (CPI less mortgage interest rates) rose in line with expectation to 5.5% year-on-year, up from February's 4.9%. This brings the CPIX ever closer to exceeding the target bandwidth of 3-6%. CPI was recorded at 6.1% year-on-year, up from last month's 5.7%, but at lower than expected levels. The monthly rise in CPIX inflation of 0.9% is mainly attributed to increases in education and transport costs. Annual increases in school and university fees increased by 8% year-on-year, while fuel prices, a subcomponent of transportation costs, rose 4.3% due to a 24 rand cents/liter increase. As reported last month, food price inflation due to the drought continues to cause pressure on CPIX. Next month's forecast indicates continued upward movement largely due the recently announced further increase in fuel prices by 69 rand cents/liter. (Business Day, April 26)

## Work Permits for Professionals Underutilized

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¶18. (U) Revised legislation last year enabled the Department of Home Affairs to simplify the recruitment of highly skilled foreigners to work in SA. Under the legislation, the government identified critical sectors in which SA suffers from a severe shortage of core skills. Quotas were then offered to enable professionals in these categories to apply for work permits without first securing permanent employment. The categories include the financial services, engineering science, education and telecommunication sectors.

¶19. (U) However, Minister of Home Affairs Nosiviwe Mapisa-Nqakula revealed during her announcement that 34,825 work permits will be available under this year's quota and that only 10% of last year's quota was actually used by the private sector. She attributed the low utilization to the department's failure to adequately publicize the program, cumbersome application processes and red tape, immigration regulations that are overly burdensome for companies to bring in needed skills, foreign perception of high crime, and global

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shortages of engineering skills. (Business Day, April 26)

## SA Celebrates World IPR Day

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¶10. (U) In celebration of World Intellectual Property Day, South African companies have focused on enhancing public awareness and altering public perception that piracy is not a crime. Microsoft, in a two page newspaper insert, published numerous articles detailing the challenges of combating piracy, the need to alter public perceptions of the crime, the negative economic consequences caused by piracy, and how the public can recognize a pirated copy. The articles cite Business Software Alliance's report, which indicates that SA has a 36% piracy rate, and that reducing it to 27% over the next few years could add 15,000 jobs. According to a leading IPR law firm, Bowman Gilfillan, counterfeiting in SA covers all areas from designer handbags to computer software, clothing, toys, and pharmaceuticals. Crime syndicates are known to use counterfeiting as a way of laundering drug money. Despite these negative aspects, the Group Manager for Microsoft, SA stated that although piracy is still a significant problem, SA has made considerable gains considering that its piracy rate was 64% in 1999 compared to the current 36%. Department of Trade and Industry is also participating in World IPR Day by co-hosting an exhibition with local industry stakeholders and the Companies and Intellectual Property Registration Office. The exhibits will be based on the World Intellectual Property Organization's (WIPO) theme "Encouraging Creativity." (Business Day, April 26)

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